



J. TYLER McCAULEY  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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January 22, 2001

To: Supervisor Michael D. Antonovich, Mayor  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe

From: J. Tyler McCauley  
Auditor-Controller

Subject: **SUPERIOR COURT'S CONDEMNATION AND INTERPLEADER  
ACCOUNTS**

On September 5, 2000, the Board directed the Auditor-Controller to arrange for an independent audit of Superior Court's Condemnation and Interpleader accounts. We contracted with Vasquez Farukhi & Company to perform the audit because of their prior experience auditing County courts.

The audit included the following work as requested by the Board and additional tests we believed desirable.

- Arrange for an audit of the Superior Court's Condemnation and Interpleader Trust Account, including separate audits of the principle and interest accounts;
- Determine the amount currently held in each account, as it relates to the recent conviction of a County employee and an attorney of bribery regarding said account;
- Determine the amount of restitution to either account, if any, made by either the County employee or the attorney in this case.

**SUMMARY OF FINDINGS**

The auditor's findings are included in the attached reports. The auditor did not find any material misstatements in the Condemnation and Interpleader Fund or the Condemnation and Interpleader Interest Fund. The report indicates that the auditors were not able to verify the sufficiency of the amount in the Interest Fund to meet future

interest requirements for the deposits currently in the Condemnation and Interpleader Fund, although they believe the Fund may very well have excess funds. This is because the County does not compute and allocate interest to the individual accounts in the Condemnation and Interpleader Fund on an ongoing basis. Instead, interest is allocated to the individual deposits in this Fund when and if the Court orders interest to be paid. The auditors were able to verify the appropriateness of the interest allocated to the Condemnation and Interpleader Fund account total.

The auditors concluded that cash received from recovery of improper payments had been correctly accounted for and was credited to the proper account.

Because of a fraud related to the operation of these funds that occurred several years ago, we requested the auditor to review and test the procedures utilized and documentation developed by Auditor-Controller staff who investigated the matter. The auditors found that the investigation was appropriately conducted.

The auditors noted areas where internal controls over the operation of the Funds can be improved. The most significant concern was that the Superior Court has not been reconciling the Condemnation and Interpleader Fund in a timely manner and there is an unreconciled difference of approximately \$544,000 or 1% of the account balance between their records and the Auditor-Controller control records. This out of balance condition has accumulated over a number of years and the auditor noted some of the discrepancy may be due to miscodings related to the Court's administration of thirteen other funds. The Superior Court needs to attempt to resolve the discrepancy or adjust the account balance in accordance with established procedures. The Auditor-Controller and Superior Court are evaluating all of the auditor's recommendations and will provide an implementation plan to the Board in the near future.

If you have any questions, please call me or have your staff call Pat McMahon at (213) 974-0301.

JTM:PTM

c: Honorable James Bascue, Presiding Judge, Superior Court  
David E. Janssen, Chief Administrative Officer  
John A. Clarke, Executive Officer, Superior Court  
Violet Varona-Lukens, Executive Officer, Board of Supervisors  
Public Information Office  
Audit Committee

**THE COUNTY OF LOS ANGELES  
FUND SK4: COUNTY CLERK CONDEMNATION AND INTERPLEADER FUND  
AND  
FUND SK5: COUNTY CLERK CONDEMNATION AND INTERPLEADER INTEREST FUND**

**THE COUNTY OF LOS ANGELES**  
**FUND SK4: COUNTY CLERK CONDEMNATION AND INTERPLEADER FUND**  
**AND**  
**FUND SK5: COUNTY CLERK CONDEMNATION AND INTERPLEADER INTEREST FUND**

**THE COUNTY OF LOS ANGELES**  
**FUND SK4: COUNTY CLERK CONDEMNATION AND INTERPLEADER FUND**  
**AND**  
**FUND SK5: COUNTY CLERK CONDEMNATION AND INTERPLEADER INTEREST FUND**

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## INDEPENDENT AUDITORS' REPORT

**The Honorable Board of Supervisors  
County of Los Angeles**

We have audited the accompanying statements of financial position of the County of Los Angeles Fund SK4: County Clerk Condemnation and Interpleader Fund and Fund SK5: County Clerk Condemnation and Interpleader Interest Fund, as of June 30, 2000 and 1999, and the related summary reports of activities for the years then ended. These financial statements are the responsibility of the County of Los Angeles management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 6, no detailed make up is kept of Fund SK5: County Clerk Condemnation and Interpleader Interest Fund balance by individual depositors nor were we able to verify this balance by other auditing procedures. In our opinion, except for the effect of adjustments, if any, as might have been determined to be necessary had we been able to obtain the detailed make up of the Fund SK5 balance or verify it by other auditing procedures, the financial statements referred to above present fairly, in all material respects, the financial position of Fund SK4: County Clerk Condemnation and Interpleader Fund and Fund SK5: County Clerk Condemnation and Interpleader Interest Fund as of June 30, 2000 and 1999 and the changes in the funds' assets for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 1, the financial statements present only the SK4 and SK5 Funds and are not intended to present fairly the financial position of any other funds or fund types of the County of Los Angeles and the results of its operations in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 4, 2000 on our consideration of the County of Los Angeles Superior Court and the County of Los Angeles' internal control over financial reporting and our tests of their compliance with certain provisions of laws and regulations concerning the funds referred to above. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Vasquez Farukhi & Company LLP*  
Los Angeles, California  
December 4, 2000



**COUNTY OF LOS ANGELES**  
**FUND SK4: COUNTY CLERK CONDEMNATION AND INTERPLEADER FUND**

**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2000 AND 1999**

<u><b>ASSETS</b></u>		<u>2000</u>	<u>1999</u>
Cash held by County Treasurer		\$ 54,912,999	\$ 78,538,002
	<b>Total assets</b>	<u>\$ 54,912,999</u>	<u>\$ 78,538,002</u>
 <u><b>LIABILITIES AND FUND EQUITY</b></u>			
Refundable to depositors		\$ 54,912,999	\$ 78,538,002
SK4 fund equity		-	-
	<b>Total liabilities and fund equity</b>	<u>\$ 54,912,999</u>	<u>\$ 78,538,002</u>

**SUMMARY REPORTS OF ACTIVITIES**  
**FISCAL YEARS ENDED JUNE 30, 2000 AND 1999**

		<u>2000</u>	<u>1999</u>
Depositors' deposits received	\$	64,993,869	\$ 84,859,281
Disbursements to or on behalf of depositors		<u>(88,618,872)</u>	<u>(76,093,777)</u>
<b>Increase (decrease) in assets</b>		(23,625,003)	8,765,504
 Total assets:			
Beginning of year		78,538,002	69,772,498
End of the year	\$	<u>54,912,999</u>	<u>\$ 78,538,002</u>

See notes to financial statements

COUNTY OF LOS ANGELES  
FUND SK5: COUNTY CLERK CONDEMNATION AND INTERPLEADER INTEREST FUND

STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2000 AND 1999

<b><u>ASSETS</u></b>	<u>2000</u>	<u>1999</u>
Cash held by		
County Treasurer	\$ 18,053,671	\$ 21,167,066
Interest receivable	827,433	965,924
Accrued interest	571,552	608,316
<b>Total assets</b>	<b>\$ 19,452,656</b>	<b>\$ 22,741,306</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>		
Taxes withheld from disbursements	\$ -	\$ 1,398
Interest payable	19,452,656	22,739,908
<b>Total liabilities</b>	<b>19,452,656</b>	<b>22,741,306</b>
SK5 fund equity	-	-
<b>Total liabilities and fund equity</b>	<b>\$ 19,452,656</b>	<b>\$ 22,741,306</b>

SUMMARY REPORTS OF ACTIVITIES  
FISCAL YEARS ENDED JUNE 30, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
Interest allocations received from County Treasurer	\$ 5,102,470	\$ 5,383,505
Interest receivable:		
Beginning of year	(965,924)	(751,963)
End of year	827,433	965,924
Accrued interest:		
Beginning of year	(608,316)	(682,279)
End of year	571,552	608,316
Disbursements to depositors for interest	(8,199,729)	(2,731,729)
Taxes withheld and miscellaneous	(16,136)	(16,917)
<b>Increase (decrease) in assets</b>	<b>(3,288,650)</b>	<b>2,774,857</b>
Total assets:		
Beginning of year	22,741,306	19,966,449
End of year	<b>\$ 19,452,656</b>	<b>\$ 22,741,306</b>

See notes to financial statements



**COUNTY OF LOS ANGELES**  
**FUND SK4: COUNTY CLERK CONDEMNATION AND INTERPLEADER FUND**  
**FUND SK5: COUNTY CLERK CONDEMNATION AND INTERPLEADER INTEREST**  
**FUND NOTES TO FINANCIAL STATEMENTS**  
**FISCAL YEARS ENDED JUNE 30,2000 AND 1999**

**NOTE 1: Description of Funds**

Fund SK4, the Condemnation and Interpleader Fund was established by the County of Los Angeles for the Superior Court of the County to account for four types of deposits consisting of eminent domain (condemnation) deposits, interpleader (deposits for credit relief), nonbondsmen bail deposits and deposits made in compliance with a judicial order. It is an interest bearing account and is administered by the County of Los Angeles for the Court.

Fund SK5, the Condemnation and Interpleader Interest Fund is maintained by the County of Los Angeles to record interest revenue and administer disbursements for interest payments on account of funds deposited into the above-described Condemnation and Interpleader Fund.

**NOTE 2:** All deposits, with the exception of interpleader deposits, require a court order for their deposit. It is the responsibility of the entities making the deposit and parties to the litigation to seek a court order for release of the funds when the right to funds has been established. Without a court order neither the Court Clerk nor the County is authorized to make any disbursement from the Fund, except for a release of an interpleader deposit which generally does not require a court order.

**NOTE 3:** Treasurer of the County of Los Angeles pools all excess cash from different sources and funds (including Funds SK4 and SK5) and invests it as a single pool. In accordance with Government Code Section 27013 and in compliance with the management of the County's Treasury Pool, each month a management expense charge is made to the interest fund for management of the cash. This charge is deducted from the total interest earnings and then an effective rate of interest is calculated. This effective interest rate is used for calculation and distribution of the County's interest earnings to the County's various funds (including the Funds SK4 and SK5) and sources carrying excess cash.

**NOTE 4:** Interest allocated for distribution of interest earnings is credited to the Fund SK5 one month in arrears, e.g., July credit to the fund represents interest earnings allocation for the month of June.

**NOTE 5:** All disbursements of interest from the Fund SK5 require a court order. Interest is paid on a compound interest basis.

**NOTE 6:** No detailed make up is kept of the Fund SK5 balance. Interest paid on individual deposits per court orders is charged to the Fund SK5.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**The Honorable Board of Supervisors  
County of Los Angeles**

We have audited the statements of financial position of the County of Los Angeles Fund SK4: County Clerk Condemnation and Interpleader Fund and Fund SK5: County Clerk Condemnation and Interpleader Interest Fund, as of June 30, 2000 and 1999 and the related summary reports of activities for the years then ended. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether the above financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations non compliance with which could have a direct material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the County of Los Angeles and the Superior Court of Los Angeles County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of the Board of Supervisors, management, and others within the organization of the County of Los Angeles and the Superior Court of County of Los Angeles and is not intended to be and should not be used by anyone other than these specified parties.

*Vasquez Frankhi & Company LLP*  
Los Angeles, California  
December 4, 2000



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December 12, 2000

Mr. Patrick T. McMahon, Division Chief  
Office of Auditor-Controller  
County of Los Angeles  
320 West Temple Street- Suite 700  
Los Angeles, California 90012-3208

Dear Mr. McMahon:

We have completed an audit of the Superior Court's Condemnation and Interpleader Account (Fund SK4) and the related interest earnings account specifically the Superior Court's Condemnation and Interpleader Interest Fund Account (Fund SK5) in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States for the period fiscal year 1998-1999 through fiscal year 1999-2000. In connection with the procedures necessary to express an opinion on the financial statements, the following procedures were performed:

1. We traced cash disbursement transactions back to authorized documentation, i.e., court orders. Verified that interest was paid with the principal if ordered by the Court. We verified that cash was actually on deposit for all disbursements made.
2. We verified that for all payments, trust warrant requisitions and actual payment warrants strictly adhered to the court orders as to payee's name and address.
3. We carried out tests to vouch that for all interest payments, interest was properly and accurately calculated taking into account the original dates of deposits for deposit balances and all interest payments accompanied court ordered payment of interest

The following methodology was followed for the above listed three tests:

- a. All disbursement transactions with individual payment amount of \$1million and over were tested. For other disbursement transactions under \$1 million statistical sampling with random selection was applied.
- b. The random sample was selected from the population (all disbursements under \$1 million) made from the Condemnation and Interpleader Fund (Fund SK4) and the Condemnation and Interpleader Interest Fund (Fund SK5) principal and related interest funds respectively covering the two- years included in our period of audit.
- c. The statistical sample was based upon a 95 percent confidence level and a precision of plus or minus 2 percent and assumption that the error rate would not exceed 2 percent. Actually zero errors were expected and 2 percent error rate was used only to establish the sample size.
4. We reviewed the County of Los Angeles interest earnings allocation procedures and performed tests to determine that interest earnings were properly allocated.
5. We reviewed supporting documentation for the journal entries recorded in the Condemnation and Interpleader Fund, on a test basis.



6. We tested the Court's reconciliations of the Condemnation and Interpleader Fund account (Fund SK4) between the Court's subsidiary ledger for this account called Historical Trust Record/Zero Balance Report (Blue Book/AS400 Book) and the County's general ledger control accounts.
7. We verified the amounts reported recovered by the County (from the fraud perpetrated in a prior year) and their proper recording in the appropriate fund (this was in calendar year 1997, not included in our audit)

In general we consider our audit test results satisfactory, as we did not find any material misstatements, however, we did note some areas over which we believe internal control could be strengthened. We brought these items to the attention of management with our recommendations and were gratified with their positive response. Set forth below are our findings, comments if any, and our recommendations if any.

I. A. Finding.

Historical Trust Record/ Zero Balance Report kept by the Court for the Condemnation and Interpleader Fund (SK4 Fund) is not reconciled with the accounts maintained by the County in its general ledger. This is the main report kept by the Court and carries details of all the deposits and disbursements made for the SK4 Fund. This report should be in balance with the general ledger accounts maintained by the County at all times. This report is produced twice a year semi-annually. This report carried a difference of \$394,665 and \$398,707 as of June 30, 1999 and June 30, 2000 respectively. This report also carries an unreconciled difference of \$145,215 going back to prior years. This difference is in addition to the differences at June 30, 1999 and 2000. In all three cases the County's general ledger balance is less than the total of the detail balances carried by the Court, i.e., the County general ledger appears to be understated.

B. Management Comment.

Management agrees with the finding. Reconciling this report to the County's general ledger is not part of the normal routine; however, every month's deposits and disbursements for this fund are compared with the County's general ledger.

C. Recommendation.

We recommend that this report be reconciled with the accounts maintained by the County for the Condemnation and Interpleader Fund regularly and adjustments made to bring them into balance.

II. A. Finding.

As stated above the Historical Trust Record/Zero Balance report is produced semi-annually.

C. Recommendation.

We recommend that this report be produced more frequently than twice a year. It is a very important report as it shows a complete history of deposits and withdrawals for each case and is actually a detailed Court's subsidiary ledger.

III. A. Finding.

The Auditor-Controller Division of the County is not informed of the reconciliation differences between the Condemnation and Interpleader Fund detail and the County's general ledger.

C. Recommendation.

Periodically, the Court should confirm the general ledger balance in the Condemnation and Interpleader Fund with the Auditor-Controller in writing.

IV. A. Finding.

The request for interest form requires only one signature. This form is accompanied by Interest Disbursement Review (Cover Sheet) which does require two signatures for approval; however, it would strengthen control if two signatures were required on the Request for Interest payment form.

C. Recommendation.

Request for interest payment form should require two signatures for approval.

V. A. Finding.

Requisition for Trust Warrant and Memorandum of Special Warrant form requires only one signature even though the form has two boxes for signatures, one for review and the other one for approval. Presently, the approval box carries a signature for approval; however, the reviewed by box carries only the typed name of the reviewer.

B. Management Comment.

Management concurs with the finding.

C. Recommendation.

Requisition for Trust Warrant and Memorandum of Special Warrant form should carry two signatures as specified on the form. Management has already accepted this recommendation.

VI. A. Finding.

Requisition for Trust Warrant and Memorandum of Special Warrant does not show the case number.

B. Management Comment.

Management concurs with the finding.

C. Recommendation.

Requisition for Trust Warrant and Memorandum of Special Warrant form should show the case number. This would improve the audit trail of disbursements made using this form as the case number dictates every disbursement for the Condemnation and Interpleader Fund.

VII. A. Finding.

A copy of the original court order for deposit is not kept in the case file. Presently, the original deposits are filed by defendant name, by year of deposit, alphabetically. The Court experienced difficulty in locating court orders we requested for our audit purposes for original deposits.

C. Recommendation.

We believe each case file should be complete as to the history of original deposits, interest payments on deposits, withdrawals of principal and court orders. A copy of the original court order for deposit should be kept in the case file. Case files should be reviewed for completeness of data in them (possibly as a part of ongoing internal audit reviews).

VIII. A. Finding.

Hard copies of journal vouchers are not kept in file for the Condemnation and Interpleader Fund. At present, a monthly journal voucher tracking sheet showing the journal voucher number, the date, amount and nature of each transaction and approving authority, together with the duly approved supporting documents is maintained in the file. Based on duly approved supporting documents, a journal is prepared and approval is made on-line. No hard copy of journal is maintained.

C. Recommendation.

In order to improve audit trail for verification hard copies of the journal voucher showing the journal entry duly approved by the authorized signatory should be maintained. Hard copies of duly approved journal vouchers affecting the Condemnation and Interpleader which originate from another department likewise should be kept in the file.

IX. A. Finding.

In addition to the Condemnation and Interpleader Fund and the Condemnation and Interpleader Interest Fund the Court has the responsibility of administering thirteen other funds. These other funds do not carry material balances when compared with the Condemnation and Interpleader Fund and the Condemnation and Interpleader Interest Fund. We believe that some of the reconciliation difference in the Condemnation and Interpleader Fund may be in these other funds due to miscoding of the entries for postings.

B. Management Comment.

Management believes that this may be correct.

C. Recommendation.

We recommend that all of these fund balances be kept in agreement with the general ledger balances carried by the County. If there are any differences they should be investigated and resolved.

X. A. Finding.

Dormant account balances in the Condemnation and Interpleader Funds detail kept by the Court are not segregated from the current balances.

C. Recommendation.

We suggest that improved control over dormant accounts, could be achieved by segregating them from current accounts by batching them together into a separate grouping or setting up a subsidiary ledger for them. Any activity for a dormant account, either payment of principal or interest, should be subjected to additional management scrutiny.

XI      A. Finding

Currently, interest earnings are based upon the total cash balance on deposit with the County Treasurer (both SK4 and SK5 funds) and allocated to Fund SK5 in a lump-sum each month. No detail is prepared of the interest earned attributable to the individual depositors. Thus, whenever a depositor's money is paid out and there is court ordered interest, the interest has to be computed at that time. Also, because interest has not been paid on all depositors' returned monies, it is almost a certainty that the interest Fund SK5 balance exceeds the actual liability the County will pay out to depositors. A periodic detailed computation should reveal this as a fact and should state the amount of the overstated liability.

C. Recommendation.

We suggest that Fund SK5 be accounted for by having a detail of the interest accrued for each depositor. We believe this would strengthen control and facilitate Court ordered payments.

We trust that our findings and recommendations will prove helpful to the County in strengthening control over administration of the two funds. If management needs any further information or has any questions we would be pleased to address their queries.

We take this opportunity to thank the Court's management and the Auditor-Controller for the courtesy extended to us during our audit.

Sincerely,

A handwritten signature in black ink, reading "Vasquez Farukhi & Company LLP". The signature is written in a cursive, flowing style.

Vasquez Farukhi & Company LLP



January 3, 2001

Mr. Patrick T. McMahon, Division Chief  
Office of Auditor-Controller  
County of Los Angeles  
320 West Temple Street, Suite 700  
Los Angeles, California 90012-3208

Dear Mr. McMahon:

Part of the Contract No. 01-151 for audit of the Superior Court's Condemnation and Interpleader and related interest earnings accounts called for verifying the amount of funds returned to the County of Los Angeles as a result of recovery of improper payments and recorded in the proper accounts. The Auditor-Controller reported funds returned to the County totaled \$1,498,200. We performed the following procedures to verify the amount of the above mentioned funds returned to the County and recorded in the accounts:

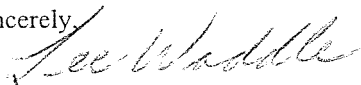
1. Examined journal voucher and related evidence for receipt of these funds.
2. Verified that cash received on account of reported recovery of the improper payments had been accorded correct accounting treatment and was credited to the proper account in the County's general ledger.

All reported recoveries related to improper payment of interest and were credited to the Condemnation and Interpleader Interest Fund Account. The year of recoveries was 1997. Set forth is the detail of the above recoveries.

<u>Date Recovered</u>	<u>Date Credited in General Ledger</u>	<u>Payer</u>	<u>Amount</u>
1/28/97	January-97	City of Irwindale	\$1,289,503
2/13/97	February-97	City of Monrovia	27,702
1/27/97	February-97	City of Commerce	115,259
4/21/97	April-97	City of Monrovia	8,867
2/24/97	March-97	City of Hawthorne	<u>56,869</u>
		Total Recovered	<u>\$1,498,200</u>

Should you need any further information, please let us know.

Sincerely,



**Lee Waddle**  
Members AICPA Division of Firms

website: [www.vfco.com](http://www.vfco.com)

January 4, 2001

Mr. Patrick T. McMahon, Division Chief  
Office of Auditor-Controller  
County of Los Angeles  
320 West Temple Street, Suite 700  
Los Angeles, California 90012-3208

Dear Mr. McMahon:

At your request, we have completed a review of the workpapers compiled by the Auditor-Controller's Audit Staff during its investigation of the "Pentoney" case (Superior Court of the County of Los Angeles). The internal audit staff investigated 99 eminent domain cases in which an attorney, Robert Fenton had been identified as a joint payee on warrants disbursed from the County's Fund SK5: County Clerk Condemnation and Interpleader Interest Fund. The period covered by the investigation was approximately October 1995 to December 1996. We reviewed workpapers of 14 case files out of the 99 eminent domain cases investigated by the internal audit staff. Set forth below are the procedures we performed for the 14 cases included in our review.

We reviewed the Summary & Analysis page of the internal audit staff's investigation and agreed it with the supporting documentation for it in the case file, particularly the documentation related to the following:

1. Confirmation of original deposits and the date of the deposit.
2. Verification of duly authorized principal payments with dates of payments.
3. Court order for interest payment.
4. The Court's request for interest payment.
5. Auditor-Controller's voucher for payment of interest.
6. Paid warrant.

The internal audit staff's investigation covered disbursements (for which Fenton was a joint payee) totalling \$5,012,797. Of that amount, \$1,498,200 were identified by the investigation as improper payments which the Auditor-Controller subsequently recovered during 1997. The remaining disbursements of \$3,514,597 were considered legitimate by the investigators even though Fenton presumably indirectly benefited by them.

In our opinion, the work carried out by the internal audit staff for the investigation was professional, very thorough and methodical, and the conclusions reached for each disbursement investigated appeared to be proper.



Mr. Patrick T. McMahon, Division Chief  
Office of Auditor-Controller  
County of Los Angeles  
January 4, 2001  
Page 2

Also, apart from and in addition to the above, we reviewed processing of the five other dormant eminent domain cases which were processed by the Superior Court for principal and interest payments during the same time frame as noted above. Robert Fenton was not a joint payee for disbursements involving these cases. Nothing unusual was noted in this review.

Should you have any questions or desire further information, please call me or Mr. Surinder Wahi.

Sincerely,

  
Lee Waddle